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The pillage of public funds in Puerto Rico going on behind the chat

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Ricardo Rosselló with the lobbyist and friend Elías Sánchez at a meeting of the CEAL, PR chapter on April 18, 2017

Photo: Twitter account of Ricardo Rosselló

There is a multimillion-dollar corruption network behind the Telegram chat between Puerto Rico Gov. Ricardo Rosselló-Nevares and some of his closest collaborators.

Amid the worst fiscal crisis in its modern history, the island is the target of a pillage of public funds perpetrated through the sale of influences, contracts and access to benefits in the government, according to an investigation by the Center for Investigative Journalism (CPI by its Spanish initials.)

The investigation included interviews with more than 20 sources with direct knowledge of the facts, the review of documents and databases of contracts and corporate records. Analysis and testimonies from sources suggest that the practice went on in many of the government agencies.

The rooting — carried out through a main scheme and several secondary ones that share the same *modus operandi* and similar protagonists — was orchestrated from La Fortaleza by the Gov. Rosselló–Nevares’s closest collaborators and with his knowledge, the investigation found.

The *modus operandi* involved planting internal personnel and external contractors in key advisory and communications positions in the agencies to control information. Also, sharing privileged data on government contracts to benefit private clients in exchange for commissions and payments.

At the top of the scheme is the former chairman of the Transition Committee, lobbyist, former campaign director and a close friend of Rosselló’s, Elías Sánchez–Sifonte, followed closely by publicist Edwin Miranda–Reyes and media and communications strategist, Carlos Bermúdez–Urbina.

The three are among the 12 participants of the 889 pages of the Governor’s chat revealed by the CPI on Saturday (<http://periodismoinvestigativo.com/2019/07/las-889-paginas-de-telegram-entre-rossello-nevares-y-sus-allegados/>), which shows the exchange of inside information with people who are not public officials, and the use of public resources for partisan purposes.

Sánchez met Rosselló in early 2000 when they both belonged to the New Progressive Party Youth (NPP, for the party’s initials in English) and, according to people who have been close to the duo, over the years they developed a very close relationship that included living together for a period of time in Torrimar, a San Juan suburb, along with who later would be the Governor’s wife, Beatriz Areizaga. Rosselló was Sánchez’s best man at his wedding, who in turn supported him fiercely when the “Boricua Ahora Es” movement began, prior to starting his campaign for governor.

The main scheme includes these three figures — Sánchez, Bermúdez and Miranda — who, on paper, appeared as “private citizens” and “contractors,” but actually constitute the top of the the government, with more power than any of Gov. Rosselló’s constitutional cabinet members, according to multiple sources. In turn, it connects, sometimes directly and in others tangentially with particular schemes, such as those uncovered with the arrests made by the U.S. Attorney’s Office in July in the Department of Education, the Health Insurance Administration and the accounting firm BDO.

Two sources close to the federal investigations told the CPI that arrests linked to corruption schemes in the Rosselló–Nevares administration are imminent.

Sánchez, Bermúdez and Miranda have generated millions through their businesses and have decided much of what has happened in the government in terms of hiring, firing and public projection since Rosselló–Nevares took office

In January 2017, the sources agree. In Sánchez's case, there are also inappropriate and illegal interventions with cabinet secretaries.

At least four agency heads went directly to the governor or his advisors in La Fortaleza to denounce these interventions by Sánchez as early as 2017, but the governor never ordered an investigation or took action.

Although he does not have direct contracts with the government, Sánchez — who has the closest link with the governor — controls most of the contracts with the highest amounts, placing his clients in many of the agencies and charging commissions of up to 25% of the amount of the contracts and fixed retainers that have reached \$50,000 per month, indicated four sources that have witnessed the dynamic.

According to separate conversations, the lobbyist had constant access to La Fortaleza and to privileged information on the big contracts that would be given in the agencies, which he would match with his clients. He would also show up, often uninvited, knocking at the doors of these agencies to present tailored proposals for the services his clients were offering.

In some instances, Sánchez encountered resistance from agency secretaries.

One of those cases occurred in the midst of the Hurricane María-related emergency, when Adjusters International was contracted for recovery work through the Department of Housing's "Tu Hogar Renace" program. Sánchez's client, AECOM, lost that bid and in December 2017, Sánchez went to Housing Secretary Fernando Gil-Enseñat's office to complain about his decision, two sources revealed to the CPI.

Gil-Enseñat acknowledge that the meeting took place and that he considered the intervention inappropriate. He said he informed Sánchez that he would uphold his decision because it complied with legal proceedings and was \$21 million cheaper than his client's proposal. AECOM appealed the decision before the agency's Review Board, which halted the contract, and litigated against Housing reaching the Supreme Court, where it dismissed the case.

"Yes, he showed up at my office and asked to speak with me... He told me that I had made a mistake in choosing the bidder I had chosen for 'Mi Hogar Renace,'" acknowledged Gil-Enseñat.

He explained that as a lawyer and an official who has previously served in the Government, he knows that he should abide to the law and not cede to this type of pressure.

"I know that I will pay the final consequence. In that sense, I did not hesitate," he said.

Do you consider this type of intervention by lobbyists appropriate? He was asked.

“No, it’s not appropriate, I’ll tell you that,” he replied.

“The thing is these things happen and I don’t like it, and I don’t agree with it,” he added, emphasizing that it is the responsibility of each individual government official not to yield to pressures.

Gil-Enseñat said he went to the Governor personally to report the event in order to anticipate the possible legal battle that would begin since he was not going to yield to Sánchez’s request, and to tell him that he had everything documented and that he would see it through its final consequences. He said Rosselló told him to move forward with his decision.

The CPI asked La Fortaleza for a reaction to this story but did not receive it at the time of publication.

Although AECOM did not get the “Tu Hogar Renace” contract, the company has \$ 1.1 million in government contracts. Gil-Enseñat said some of these contracts were prior to the incident and others after it, and that they were obtained in good faith.

In mid-2018, Sánchez personally took his client GILA Corporation to the Treasury Department to push a delinquent debt collection contract and met at least four times, with two of the main agency officials and a contractor: the current Treasury secretary and then contract advisor, Francisco Parés, the former Treasury secretary and then contract consultant, Juan Carlos Puig and the then Treasury secretary and chief financial officer, Raúl Maldonado, according to two sources with direct knowledge of the meetings.

Maldonado, who for years also participated in the dynamics, according to sources, ended up going to the Federal Bureau of Investigation (FBI) to provide information on the government’s illegalities, shortly after his brief successor at Treasury, Teresita Fuentes-Marimón, had been to the FBI, and then to Rosselló in January 2019, with complaints related to the schemes at Treasury. Rosselló took no action on the matter. Fuentes-Marimón resigned immediately.

Fuentes-Marimón — who was not reachable for this story — has not specified whether her complaints were about Sánchez’s interventions at Treasury , and was not available for an interview.

She too went to Rosselló to denounce the alleged illegal profit schemes operated by Maldonado and his son, Raúl Maldonado-Nieves, through at least seven companies: Virtus, Óptima, Centurion, 6th Element, On Point, Integrity and

CPI, three sources said. The companies had at least 65 contracts for \$12.6 million and allegedly charged for access to Maldonado (senior) for negotiations, favorable agreements and tax reductions in Treasury, among other services.

The CPI tried to obtain a reaction from Maldonado through his lawyer Mayra López-Mulero, but she indicated that they would not make any statements.

On the other hand, multiple sources told the CPI about improper interventions by Sánchez in favor of his client, Microsoft. The technology company has landed more than \$100 million in contracts during this administration. Two sources pointed, for example, to the \$11 million contract signed last summer to obtain licenses for AmpliFund, a Microsoft-owned grant management application. Despite the fact that the government already had a similar and effective tool, and that it would cost a fraction to extend this license, the Rosselló-Nevares administration decided to acquire the AmpliFund license from Sanchez client.

The CPI called Herbert Lewy, president of Microsoft, who acknowledged the call through his public relations officer, Vivian Sánchez. Written questions were sent to him, however, at press time, no response had been received.

The CPI called for a reaction from Herbert Lewy, president of Microsoft, and later received expressions from Soledad Lago Rodríguez, Communications Manager for Microsoft Caribe, that doesn't deny that Sánchez has worked for the company: "Microsoft is committed to doing business in a way that generates and maintains trust with all our customers and partners. We currently do not work with Elías Sánchez, World Professionals Government Affairs or any of its executives or shareholders." The company did not respond if it has received any information request or request for an interview from the federal authorities.

According to two sources, in the Department of Correction there was also an improper intervention by Sánchez when Carolina Catering Services landed a \$300 million contract to manage the commission, laundry and food service in the prisons. The contract was awarded to this company even though it bid higher than the other competitor, Trinity. Two sources told the CPI that the person responsible for intervening in the bid and getting Carolina Catering to land the contract was Sánchez.

The CPI questioned the Secretary of Correction, Erik Rolón, if Sánchez intervened in any way in the bid for these services. "Not at all; that is totally incorrect," said Rolón, who is also the governor's deputy chief of staff, adding that there were no irregularities in the process.

The CPI contacted the president of Carolina Catering, José Algarín, who denied any relationship with Sánchez and his associates, relatives or companies related to him, and said that they do not use external lobbyists. "Absolutely not," he

answered through his spokesperson, Maria "Maypi" Casta. Carolina Catering is part of the MGI Caribe conglomerate, which in turn is related to Empresas Santana.

At the Health Insurance Administration (ASES, for its initials in Spanish,) the jewel in the crown for the enormous amount of government's health plan contracts for indigent people, Vital, an insurance company managed to have its participation in the auction admitted and was awarded the largest contract even though it submitted its proposal two days late, so it did not qualify.

This information is part of the indictment filed a few days ago for fraud, conspiracy, theft of public funds and money laundering against the head of that agency, Ángela Ávila, the president of BDO, Fernando Scherrer, and against his employee and lobbyist in the agency, Alberto Velázquez Piñol. The latter was a senior government official and consultant from former Gov. Luis Fortuño's administration and has links with Sánchez's family, through a close relationship with his ex-mother-in-law Katherine Erazo-García, and his ex-wife and partner Valerie Rodríguez-Erazo. According to two CPI sources, the insurer in question is Triple-S, which is also a client of Sánchez and his partner, former Secretary of Corrections and vice chair of the University of Puerto Rico's Governing Board, Zoraida Buxó.

Triple-S did not answer whether Sánchez or any of his companies or associates lobbied on his behalf, or whether it has received requests from federal authorities.

"Triple-S has already issued a statement stating that it will not comment on federal investigations and will not feed rumors or speculation," according to a written statement from the company's chief communications officer, Ivelisse M. Fernández.

In the past, Triple-S and Empresas Santana were among the participants in the corruption scheme for which former Governor Aníbal Acevedo-Vilá was accused of receiving numerous illegal campaign donations from his executives. He was found not guilty of all charges.

"If you do not hire Elías's clients, there is no room for you in (Ricardo Rosselló's) government," a source told the CPI.

A source said that after Hurricane María, Sánchez, through Christian Sobrino, brought in the CSA firm, so that, through the Disaster and Emergencies Management Agency, it could obtain the contract for the inspection of schools after the emergency. The \$800,000 contract was awarded at the end of September 2017 and canceled shortly after amid criticism, including that of

then Secretary of Education, Julia Kelenier. Last week, Kelenier was also indicted by the feds in a scheme — until now unrelated — in which BDO, Scherrer and Velázquez were also central characters.

Company President Frederik Riefkohl, categorically denied that CSA has any relationship, “directly or indirectly,” with Sánchez or with “any of his associates.”

“Sánchez has not been a consultant, contractor, advisor or director of CSA,” Riefkohl told CPI, noting that CSA is a Puerto Rican company that has been in operation for more than 60 years and has contracted with the government for years.

“We don’t need to use lobbyists or anyone else as a business card with the government,” he added.

CSA has attained \$26 million in contracts in 10 agencies with this administration, according to the Comptroller’s Office contracts registry.

The CPI contacted Sobrino for a reaction, but there was no answer by press time.

During a press conference on Tuesday, the CPI asked Rosselló directly why Sánchez has such power and direct access to his cabinet secretaries but the governor eluded the question. Instead, he offered a puzzled answer in which he did not denied Sánchez having such access.

“Yes, well, there are people here who have different relationships. There are relationships [that] the individuals establish, but for my part, I have taken care of, and my job is to take care of the existence of a process, independent of relationships, of friendships, of whatever, [and] the process is what determines the future actions,” he answered.

Earlier, at the same conference, Rosselló said, also in a very brief way , that “all” of Sánchez’s contracts are under evaluation.

Not everything was contracts

Two sources said that the Laborers’ International Union of North America (LIUNA), Sánchez’s client, got the executive order from the Rosselló administration that increased the minimum wage in the construction industry to \$15.

The CPI also learned, from three other sources, that Sánchez and his associates arrange important economic benefits for their clients through top agency officials, such as tax exemptions and credits, the payment of arrears with the government and the reduction or forgiveness of tax debts, among others.

The sources have also given information that points to the intervention of other lobbyists and lawyers in similar practices during this administration.

Sánchez did not want to answer questions about this story, although in June he denied participation in any act of corruption.

He answered a request for interview from the CPI via a text message in which he said “there is no arrest warrant against him.”

“I have no additional comments,” he added.

After insisting on the importance of this story, which also mentions the business of his mother-in-law, a former government official and former adviser to Pedro Rosselló and Thomas Rivera-Schatz, Katherine Erazo-García, and his ex wife, businesswoman, lobbyist and radio commentator, Valerie Ann Rodríguez-Erazo business, Sánchez said via text message: “Right now I’m on vacation with my family and I’m not available for an interview. Some of my family are not public figures, so we will be looking into corresponding (legal) actions.”

Erazo-García, who is also the ex-wife of former Senate President, Charlie Rodríguez, has contracts for \$357,500 with the Department of Economic Development and Commerce, and the Telecommunications Bureau through her company BCS Consulting Group. With this company she represents private clients in negotiations with the government, and in 2018 alone, it reported \$625,000 in assets, more than doubling the amount for 2017 when it reported \$276,000.

Some of the contracts reviewed for this story are for bonafide services. It is unknown what portion went to the payment of commissions to lobbyists and intermediaries, and non-existent or over-invoiced services.

It is also unknown how much was granted in debt reductions and tax credits. The Government of Puerto Rico maintains that the information related to the tax benefits it grants, including those via Acts 20 and 22, is confidential.

Media management

In direct contracts alone, Edwin Miranda and his companies obtained more than \$50 million from 22 government agencies. In the case of Carlos Bermúdez, his public relations company, Ojo Creativo, won 16 contracts with seven agencies, for a total of \$540,000.

Three sources indicated that Bermúdez and Miranda allegedly exerted pressure on companies and individuals to hire them privately if they wanted to do business with the government. These contracts, because they are private, do not

show in the Comptroller's Office. Miranda and Bermúdez also served on the Juntos por Puerto Rico Board of Directors. Currently they are not included in the organization's official website.

One of Miranda's companies, for example, was hired by Microsoft — one of the government's largest contractors and Sánchez's client, according to two sources — and by Unidos por Puerto Rico, the nonprofit organization created by First Lady Beatriz Rosselló, to handle donations after Hurricane María. Unidos por Puerto Rico, whose president was Elías Sánchez's brother-in-law, Jorge del Pino, received \$41 million in donations and is also being investigated by federal authorities.

Although Miranda has said his political-partisan work was done through other companies and not KOI, his advertising agency, the CPI learned that earlier this year, he allegedly instructed a group of his employees at KOI that they would have to include political work among their duties with private and government clients.

The publicist, who began in political oversight and management during Luis Fortuño's administration, has four companies registered in the State Department, and two sources with access to the documents assured that there is duplicate or false invoicing. Independent Representative Manuel Natal referred some of the irregularities in the invoicing by Miranda's companies to the heads of the U.S. District Attorney's Office Office, the Puerto Rico Department of Justice, the Government Ethics Office, and the Comptroller's Office as early as Nov. 17, 2017.

The CPI tried to contact Miranda for a reaction, but it was not possible by press time.

In addition to politics, Bermúdez has a long history of public relations entertainment figures and celebrities, although the Puerto Rico Association of Public Relations Professionals clarified that he is not licensed in this profession. The public relations law prohibits acting as such without a license, although there is no penalty. Among models and beauty queens, he serves as the president of San Juan Moda and was the executive director of Miss Mundo of Puerto Rico. Bermúdez's portfolio of artists included figures such as presenter and model Cynthia Olavarría, rappers Tempo and Ozuna, Maripily, El Molusco and merengue singer Joseph Fonseca.

Ozuna has participated as a talent in several public events along with the governor. The chat mentions, for example, the musical theme "Llegó la Navidad" by Ozuna and "cuatro" musician Christian Nieves, who was managed through a contract with the Tourism Company.

Morusco clarified that Carlos Bermúdez is not his representative nor permanent public relations official, but said he has handled his public relations for specific projects. “Bermu worked on one or two projects for me. Carlos Bermúdez is a friend of artists, he’s my friend,” he said.

He said he has not received any money for interventions in government events in which he participated as a talent after the hurricane, when Unidos por Puerto Rico was created.

Although he denied being Ozuna’s representative, Bermúdez, who said he was not in Puerto Rico, acknowledged in written statements that the artist’s company hires him and that he has been hired “some times” by the other artists. However, he rejected that he or his clients have benefited from his relationships with the governor and the government. He also denied exerting pressure for private contracting by the public sector.

In the political sphere, in addition to representing Resident Commissioner in Washington, Jenniffer González, former Mayor of San Juan, Jorge Santini and the Mayor of Ponce, María “Mayita” Meléndez, Bermúdez introduced himself as press contact for politicians Melinda Romero and Leo Diaz-Urbina, his cousin. González said that after the publication of the chat she canceled his contract, although Bermúdez wanted to make it seem like he was the one who had relinquished it.

In Ricardo Rosselló’s administration, Bermúdez has controlled most relations with the press and the media, to the point that he was the person who selected almost all the communications directors for the government agencies, as well as being an additional external media consultant in most cases. According to two sources with first-hand knowledge, the communications from almost all of the government chiefs were channeled to Bermúdez through La Fortaleza’s Communication Director, Rossy Santiago.

“The reality is that it was he (Bermúdez) who put everyone in their posts (press and communications),” said one of the sources.

Among the key communicators allegedly placed Bermúdez include former journalists and people linked to the world of entertainment: Denisse Pérez, Rosselló’s current press secretary; Rossy Santiago, La Fortaleza’s communications director; Yolanda Rosaly and Farrash López in Education; Eric Perlloni in Health; Alejandro Pabón in ASES; Maura Ríos, at DDEC; Waldo Díaz, in Corrections; Iván Caraballo at the Fiscal Agency and Financial Advisory Authority, or AAFAF; and María Batista at the Chief of Staff’s office.

Bermúdez accepted that he participated in the selection process and recommended some of these people but denied having chosen them.

I recommended some of them and it was through a final, group determination by which they ultimately were included in the team. I was part of the team (there) to identify talents,” he said.

The CPI also confirmed with several sources the existence of a chat between communications officers, in which Bermúdez and Santiago gave instructions on when and how to respond to requests from the press.

“I did not give orders but was part of the strategic work group, we were a team as there are in all governments. We always tried to respond to media and their requests,” Bermúdez said, although the CPI could see instances in which Bermúdez ordered that the requests be stalled.

The chat was a trigger

The issue of corruption in the Rosselló–Nevares administration, which have been revealed in cases that seem isolated, began to explode with Raúl Maldonado’s abrupt departure, his visit to the FBI and public statements by his son, Raúl Maldonado–Nieves, who directly labeled the governor as “corrupt” and made direct reference to Rosselló’s alleged intervention to alter the audit of Unidos por Puerto Rico’s management of supplies for Hurricane María to protect his wife. As of that date, parts of the chat where the governor and 11 members of his inner circle began to leak to the press. In it Rosselló, his officials, advisers — including Bermúdez and Miranda — and Sánchez, made misogynistic, homophobic and insulting comments toward different sectors of the population.

On Saturday, July 14, the CPI published 889 full pages of the chat (<http://periodismoinvestigativo.com/2019/07/las-889-paginas-de-telegram-entre-rossello-nevares-y-sus-allegados/>) and a report stating how, in addition to insults and ridicule, including mockery about Hurricane María’s death, Rosselló, his officials, advisors and Sánchez, who has no formal relationship with the government of Puerto Rico, planned the use of public tools to go after government officials, to manipulate media, and exchanged privileged information on government operations. From that Saturday on, the people took to social media networks and the streets in protests that have continued heating up demanding Rosselló’s immediate resignation.

On Saturday, after the CPI revealed the full content of the governor’s chat with his closest allies, Rosselló announced that he would no longer use the advice and services of most of the chat’s members, some of whom had no official relationship with the government, but he is clinging to his position. Since then, he has maintained that he will not resign.

That day, both Bermúdez and Miranda announced they had given up all of their contracts with the government. In Sánchez's case, the governor — in an ambiguous way — said he "ended" his contracts. But Sánchez has not had any contract registered with the government. Rosselló has neither been clear in defining exactly what Sánchez's role has been after leaving the position as his representative before the Fiscal Control Board.

Two of the chat members, the chief financial officer and the government's representative to the Board, Christian Sobrino, and Secretary of State, Luis Rivera-Marín, submitted their resignations on Saturday. Sobrino's resignation was immediate, while Rivera-Marín's is effective at the end of July. Two other public officials in the chat, Chief of Staff Ricardo Llerandi and Public Affairs Secretary, Anthony Maceira, will remain in their posts.

House of Representatives Speaker Méndez has had before him for almost a year a request for to investigate the lobbying for companies that Sánchez and his associates did without being properly registered, but he has not done anything about it.

Carla Minet, Laura Moscoso, Vanessa Colón, Damaris Suárez and Jeniffer Wiscovitch contributed to this story.

SOBRE EL CPI

El CPI reconoce que el requisito fundamental para una verdadera democracia es que la ciudadanía esté bien informada y que existan entidades independientes con la capacidad de fiscalizar los poderes que accionan en la sociedad, sean públicos o privados.

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